

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE:  GLOBAL CROSSING LTD. AND FRONTIER CORPORATION	DOCKET NO. SPU-99-24
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**ORDER REQUIRING SUPPLEMENTAL INFORMATION  
AND SCHEDULING HEARING**

(Issued August 26, 1999)

On May 7, 1999, Global Crossing Ltd. (Global Crossing) and Frontier Corporation (Frontier) (collectively, Applicants) filed a "Proposal For Reorganization" pursuant to IOWA CODE § 476.77 (1999) (the Application). The Applicants request Utilities Board (Board) review of their proposal to transfer control of Frontier's Iowa operating subsidiaries to Global Crossing. The Board docketed the Application as Docket No. SPU-99-16. The Application was subsequently dismissed and re-docketed as Docket No. SPU-99-24 and a new procedural schedule was established.

On August 11, 1999, Applicants and the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed a settlement agreement and a joint motion for approval of the settlement and to hold the procedural schedule in abeyance. On August 13, 1999, the Board issued an order suspending the procedural schedule.

IOWA CODE § 476.76(3) provides that in the Board's review of a proposal for reorganization, the Board may consider all of the following:

1. Whether the Board will have reasonable access to the books, records, documents, and other information relating to the public utility or any of its affiliates;
2. Whether the public utility's ability to attract capital on reasonable terms, including the maintenance of a reasonable capital structure, is impaired;
3. Whether the ability of the public utility to provide safe, reasonable, and adequate service is impaired;
4. Whether ratepayers are detrimentally affected; and
5. Whether the public interest is detrimentally affected.

The Board intends to consider each of these criteria in its review of the proposed settlement. In order to conduct its review, the Board requires additional information to evaluate the proposed settlement. Attached to this order as Attachment A, and incorporated herein by this reference, is a list of questions directed to Applicants and Consumer Advocate relating to the proposed settlement. The Board will direct the parties to respond to the questions, in writing, no later than September 1, 1999. The Board will also schedule a hearing at which the parties may offer sworn testimony in support of the proposed settlement and answer questions, under oath, from the Board. In addition to the questions set out in Attachment A, the parties

should have witnesses available at the hearing who are prepared to testify about all aspects of the application of the statutory criteria to the proposed settlement and the proposed reorganization.

**IT IS THEREFORE ORDERED:**

1. Global Crossing Ltd., Frontier Corporation, and the Consumer Advocate Division of the Department of Justice are directed to file written responses, on or before September 1, 1999, to the questions attached to this order as Attachment A. All responses shall be verified by a person who will be available for cross-examination at the hearing.

2. A hearing will commence at 10 am on September 14, 1999, in the Board's hearing room, 350 Maple Street, Des Moines, Iowa, for the purpose of receiving testimony regarding the proposed settlement and proposed reorganization filed in this docket and for cross-examination of that testimony.

**UTILITIES BOARD**

/s/ Allan T. Thoms

/s/ Susan J. Frye

ATTEST:

/s/ Judi K. Cooper  
Executive Secretary, Deputy

/s/ Diane Munns

Dated at Des Moines, Iowa, this 26<sup>th</sup> day of August, 1999.

## ATTACHMENT A

The provisions of each numbered paragraph of Article VII of the settlement are summarized below, followed by questions to be answered by the parties, as indicated. For purposes of this attachment, the term "Applicants" refers to Global Crossing Ltd. (Global Crossing) and Frontier Corporation; "Frontier-Iowa" means Frontier Communications of Iowa, Inc., and "Frontier-Schuyler" means Frontier Communications Schuyler, Inc.

**Paragraph 1:** Customers of Frontier-Iowa and Frontier-Schuyler are to be insulated from any adverse impacts on their rates, services, or service quality that may result directly from the merger.

Both parties: (a) Please explain what measures can be used to monitor any potential adverse impacts and what authority and procedures are available to the Board to enforce this paragraph.

**Paragraph 2:** The merger shall not adversely affect the cost of capital as reflected in Frontier-Iowa and Frontier-Schuyler rates. When determining the cost of capital in any future earnings analysis or rate base/rate of return rate case, it will be based on the risk attendant to the regulated operations of Frontier-Iowa and Frontier-Schuyler without merger effects.

Both parties: (a) This paragraph states that "any declines in Frontier Corporation credit ratings caused by the merger shall be quantified by Applicants in any future earnings analysis, or rate base/rate of return rate case and adjusted as if such declines did not occur." Is it correct to assume exogenous events under price caps, rate unbundling cases, and single-issue rate cases would be covered by this commitment?

Applicants: (b) Provide for Frontier-Iowa, for each of the past three years, a capital structure calculated using a 13-month average of month-ending balances ending on December 31 of each year and on a year-end basis. Provide the same information for Frontier-Schuyler and Frontier Corporation.

**Paragraph 3:** This paragraph limits the dividend payout ratio for Frontier-Iowa and Frontier-Schuyler to 78 percent for the next five years.

Applicants: (a) Are there any specific equity ratio floors for Frontier-Iowa and Frontier-Schuyler that management intends to maintain in the future? If yes, what are those floors?

(b) For each of the past three years, provide detailed accounting reports for Frontier-Iowa showing cash flows from operations, investment cash flows, and

financing cash flows. Provide the same information for Frontier-Schuyler and Frontier Corporation.

(c) How will any increases in retained earnings over the next five years for Frontier-Iowa and Frontier-Schuyler be used? How much of it is planned for investment in facilities to enhance service in Iowa?

(d) To what extent, and in what way, will Frontier-Iowa or Frontier-Schuyler's investment plans in Iowa change from pre-merger to post-merger status? Provide the most recent pre-merger investment plans for the Iowa service territories. Also provide any plans to change the post-merger level or type of investment commitment.

**Paragraph 4:** This paragraph limits the payout ratio to 60 percent if the equity ratio for Frontier Corporation falls below 40 percent. The limitation applies for the next five years.

Applicants: (a) Does the 40 percent benchmark refer to the consolidated balance sheet of Frontier Corporation or the stand-alone balance sheet of Frontier Corporation?

**Paragraph 5:** This paragraph limits the investments and financial relationships between Frontier-Iowa, Frontier-Schuyler, and the other affiliates.

Applicants: (a) Does the use of the term "affiliates" include all corporate entities shown on the organizational charts filed by Applicants in this docket? If not, please define the term "affiliates."

(b) Itemize and explain all types of financial arrangements that would still be allowed between the utilities and their affiliates under the settlement.

(c) This paragraph discusses limitations on *future* relationships between the Iowa subsidiaries and their affiliates. Are there any current financial relationships or investments that Frontier – Iowa and Frontier – Schuyler have with any of their affiliates that would have been inconsistent with this paragraph? If yes, what are they?

**Paragraph 6:** This paragraph limits the federal income tax payments from the Iowa subsidiaries to each company's pro rata share of actual consolidated federal income taxes due.

Applicants: (a) Provide the total amount of federal income taxes paid by the Frontier parent corporation and the contribution to that payment made by each of the Iowa subsidiaries for the last three years.

(b) Upon what basis will the utilities' pro rata share of actual consolidated federal income taxes due be determined?

**Paragraph 7:** This paragraph commits the Applicants to preserving or enhancing the quality and reliability of all services provided in Iowa by Frontier-Iowa and Frontier-Schuyler.

Applicants: (a) To provide a baseline for measurement, provide service measurements based upon the criteria set forth in the Board's standards of quality of service (IOWA ADMIN. CODE 199—22.6) for each of the last three years.

(b) What, if any, objective measures should the Board use to determine Applicants' future compliance with this paragraph?

(c) What reports, if any, should the Board require in order to monitor compliance with this paragraph?

(d) What data can Applicants provide as a benchmark of pre-merger quality and reliability of service for comparison with post-merger quality and reliability of service?

(e) What specific plans exist to enhance quality and reliability of service in Iowa, including service in rural areas? How have those plans been affected by the proposed merger?

(f) Are all customers in all exchanges served by Frontier-Iowa and Frontier-Schuyler able to purchase customer calling services (such as vertical features and class services)? If not, what plan or schedule will the merged company follow to deliver these services?

(g) Please describe the Applicants' plans for placement of equipment needed to provide xDSL (or similar) services throughout its Iowa exchanges and provide a copy of the plans, if available.

(h) Please describe the Applicants' plan for the development of local number portability in the Iowa service territories and provide a copy of the plan, if available.

(i) Please describe the Applicants' plan for development of access by competitors to the operational support systems (OSS) of Frontier-Iowa and Frontier-Schuyler and provide a copy of the plan, if available.

(j) Please describe the Applicants' plans for the location of any centralized service operations and the manner in which Applicants intend to ensure that customers in Iowa receive prompt and effective customer assistance when required.

**Paragraph 8:** This paragraph includes a commitment that the financial soundness and integrity of Frontier – Iowa and Frontier – Schuyler shall not be compromised by transactions between all affiliates and themselves.

Both Parties: How can compliance with this commitment be measured, monitored, and enforced?

**Paragraph 9:** This paragraph commits Applicants to compliance with Iowa Code provisions and the Board's rules regarding affiliate transaction reporting.

**Paragraph 10:** This paragraph commits Applicants to compliance with the Board's rules regarding access to records or, in the alternative, requires the Applicants to reimburse the cost of Board or Consumer Advocate review of records located outside Iowa.

**Paragraph 11:** This paragraph prohibits Applicants from charging identified expenses to Frontier-Iowa or Frontier-Schuyler or any other regulated Iowa entity without prior Board approval. The prohibited charges include merger transaction, and implementation costs, any acquisition premium associated with the merger, certain contributions, and costs from offshore operations.

Both parties: (a) Are there any merger-related costs or expenses that could possibly be charged to the Iowa subsidiaries?

(b) Will the assessments or charges imposed upon Frontier-Iowa and Frontier-Schuyler by the parents to support administrative and other costs increase for the utilities as a result of this reorganization? Will new assessments or charges be imposed upon these utilities?

**Paragraph 12:** Applicants state their expectation that the existing employment levels and workforce responsibilities for Frontier-Iowa and Frontier-Schuyler will be maintained for a period of five years, at least to the extent they are associated

with the provision of regulated services. Any workforce reductions or changes shall not be implemented in a manner that disproportionately reduces employment levels.

Applicants: (a) Provide the number of employees for Frontier-Iowa and Frontier-Schuyler for each of the last three years. Employees located in Iowa and employees located outside Iowa, but assigned or allocated to one of the Iowa utilities, should be separately stated.

(b) Explain what is meant by the word "disproportionately" in this paragraph. For example, does this mean any work force reductions would be uniform across all employee classes? Or that reductions at Frontier-Iowa would be proportional to reductions at Frontier-Schuyler, or at the parent company level? Or that any reductions would have to be proportional to some other measure?

**Paragraph 13:** This paragraph provides a commitment that the charitable contributions, community activities, and civic support efforts of Frontier-Iowa and Frontier-Schuyler will not be reduced.

Applicants: Describe and, if possible, quantify the charitable contributions, community activities, and civic support efforts made by Frontier-Iowa and Frontier-Schuyler for each of the last three years.

#### **14. General Questions**

Consumer Advocate: What provisions, if any, should the Board include in its order if it accepts this settlement that would help ensure compliance by the Applicants?

Applicants: (a) Will the Applicants provide annual reports demonstrating continued compliance with the terms of this settlement?

(b) How else might the Board and its staff be able to monitor the commitment of the Applicants to this settlement?

(c) Do the Applicants have any plans to sell any or all of the Iowa exchanges of Frontier-Iowa or Frontier-Schuyler?

(d) What steps have been taken by Frontier and by Global Crossing to ensure that telecommunications and related systems using computer or embedded chip technology will be functional as the year 2000 arrives?